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# Helping Clients Win with Digital

## Second Quarter 2018 Earnings Supplement

August 2, 2018

# Forward Looking Statements and Non-GAAP Financial Measures

This earnings supplement includes statements which may constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the accuracy of which are necessarily subject to risks, uncertainties, and assumptions as to future events that may not prove to be accurate. These statements include, but are not limited to, express or implied forward-looking statements relating to our expectations regarding opportunities in the marketplace, investment in and growth of our business, our shift to digital solutions and services, our anticipated financial performance and our capital return and realignment programs. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements. Existing and prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Factors that could cause actual results to differ materially from those expressed or implied include general economic conditions, changes in the regulatory environment, including with respect to immigration and taxes, and the other factors discussed in our most recent Annual Report on Form 10-K and other filings with the Securities and Exchange Commission. Cognizant undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities law.

This earnings supplement includes references to the following measures defined by the Securities and Exchange Commission as Non-GAAP financial measures: Non-GAAP operating margin and non-GAAP diluted earnings per share ("Non-GAAP diluted EPS"). These Non-GAAP measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from Non-GAAP measures used by other companies. In addition, these Non-GAAP measures should be read in conjunction with our financial statements prepared in accordance with GAAP. Reconciliations of these Non-GAAP financial measures to the corresponding GAAP measures can be found in the Appendix of this presentation and should be carefully evaluated.



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# A Leader in Helping Today's Leading Companies Adapt to the Digital Era

## The right capabilities to help clients transform at every level of their enterprises

- Deep digital and industry expertise at the scale required to transform the world's most complex and critical enterprises
- Cross-industry capabilities and industry-specific solutions to address common client challenges and opportunities quickly and efficiently
- Long-term, trusted client relationships helping to design and manage our clients' most essential business processes
- Global technology consulting and services that combines a massive delivery capability in India with a network of regional delivery centers able to partner with clients locally in North America, Europe, Latin America and Asia

### Cognizant Digital Business

**Envisioning and building human-centric digital solutions fusing strategy, intelligence, experience and software to drive industry-aligned, transformative growth.**

- ✓ Digital Strategy
- ✓ Interactive
- ✓ AI & Analytics
- ✓ Connected Products
- ✓ Digital Engineering

### Cognizant Digital Operations

**Bringing customers to the center of operations by creating a digital-first, outcome-driven and agile operating model that leverages end-to-end seamless processes, automation, artificial intelligence and scalable on-demand platforms.**

- ✓ Industry and Platform Solutions
- ✓ Enterprise Services
- ✓ Intelligent Process Automation

### Cognizant Digital Systems & Technology

**Transforming applications and infrastructure to meet the needs of modern enterprises while extracting value from legacy technology environments, adapting to high-speed change and ensuring the integrity of the IT core.**

- ✓ Legacy Transformation
- ✓ Core Modernization
- ✓ Cloud Enablement
- ✓ Digital Engineering
- ✓ Security

**Cognizant Consulting, Global Technology Office & Cognizant Accelerator**



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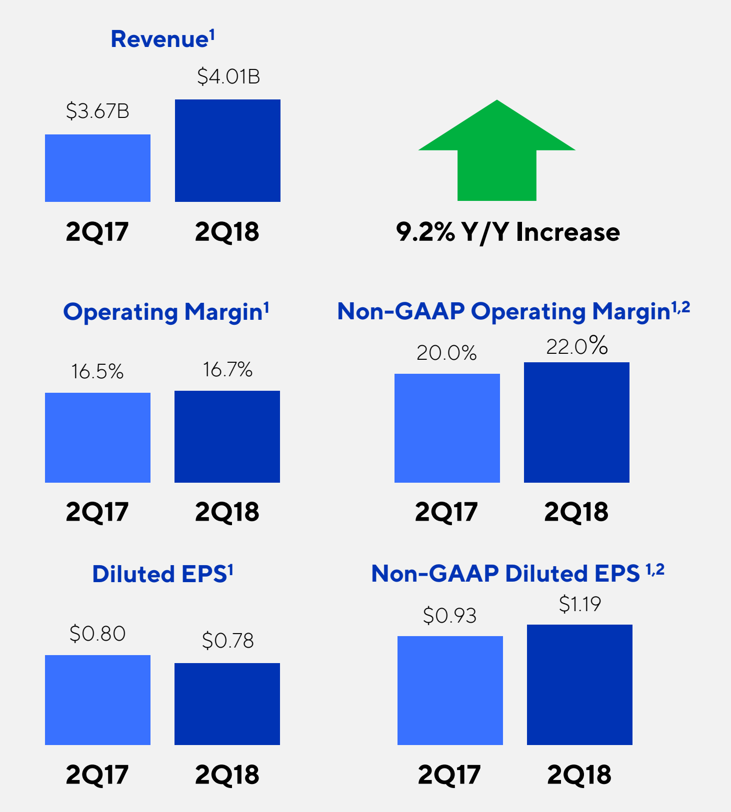
# Strong Operational Execution in 2Q18




## 2Q18 Highlights[1]

**Revenue:**

- 2Q18 Revenue of $4.01B increased 9.2% Y/Y and is within our guided range
    - Includes 100 bps of favorable foreign currency impact

**Operating Margin:**

- Strong Non-GAAP operating margin[2] performance is a result of:
    - Sustaining higher levels of utilization
    - Optimizing pyramid structure
    - Simplifying of our business unit overhead structure
    - Leveraging our corporate function spend more effectively
    - Depreciation of the Indian rupee, net of hedges, versus the prior year (-23bps)
- GAAP operating margin includes $100M initial funding of Cognizant U.S. Foundation

**EPS:**

- GAAP EPS down Y/Y primarily due to non-operating foreign exchange losses, primarily due to the depreciation of the Indian rupee

[1] On January 1, 2018, we adopted ASC Topic 606, "Revenue from Contracts with Customers," or the New Revenue Standard, using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. For the three months ended June 30, 2018, adoption of the New Revenue Standard had a positive impact on revenue of $31 million, income from operations of $38 million and diluted earnings per share of $0.05 per share.

[2] Reconciliations of the non-GAAP financial measures to the corresponding GAAP measures can be found in the Appendix of this presentation

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# Growth Across Segments and Geographies

| Revenues by Segment ($M) | 2Q18 | Y/Y Chg. |
|---|---|---|
| Financial Services | $ 1,469 | 4.5% |
| Healthcare | 1,156 | 10.1% |
| Products and Resources | 840 | 12.4% |
| Communications, Media and Technology | 541 | 15.8% |

| Revenues by Geography ($M) | 2Q18 | Y/Y Chg. |
|---|---|---|
| North America | $ 3,067 | 7.6% |
| Europe | 690 | 19.2% |
| Rest of World | 249 | 3.8% |

## Select Segment Insights

- **Financial Services –** Strong growth in Insurance resulting from large multi-service deals. Winning fair share of digital revenue from large money center banks, offset by increasing pressure on run-the-bank spending. Beginning to see some large accounts return to growth.
- **Healthcare –** Excited about opportunities in growing Medicare and Medicaid program servicing. Well positioned in government programs with TMG Health transaction, where we added several new health plans to the program in the quarter.
- **Products and Resources –** Led by strong growth from our energy and utility clients. Continue to see strength in manufacturing and logistics from smart product development, industrial automation and customer experience and supply chain visibility improvement.
- **Communications, Media and Technology –** Performance mostly from technology and media clients, offsetting slower growth in the communications industry, where significant consolidation and M&A activity is underway.

## Select Operational Insights

- Global cloud workforce to exceed 20,000 associates by year end.
- Operates one of the largest artificial intelligence practices measured by number of professionals and scope of services.
- New service delivery centers opened in Duisburg, Germany and Riga, Latvia during the quarter to serve local and regional clients.
- Workforce strategy remains focused on recruitment of top tier talent in advanced digital technologies and on programs to reduce attrition.



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# Supporting Metrics Demonstrate Continued Progress and Areas of Focus

## Customers and Revenue Insights

**Strategic Customers:**

- 7 new strategic customers added, bringing total to 371

**Revenue by Solution:**

- Consulting & Technology Services Revenue up **6.0% Y/Y**
- Outsourcing Services Revenue up **13.6% Y/Y**

**Revenue by Contract Type:**

- **36%** fixed price contracts | **11%** transaction based contracts

## Balance Sheet

**Balance Sheet Remains Very Healthy**

- $4.2B in cash and short-term investments[1]
- Cash and short-term investments, net of debt, down by $685M from the 4Q17 due to:
  - ~$480M: Bolder Healthcare and Hedera acquisitions
  - $900M: Accelerated share repurchases
  - $100M: Initial funding of the Cognizant U.S. Foundation
- DSO[2] was 76 days at the end of 2Q18, up from 73 days in 2Q17
- Our outstanding debt balance was $749M at the end of the quarter with no outstanding balance on the revolver

## Workforce

**Employee Metrics:**

- Headcount increased by **7,500 Q/Q** and **12,100 Y/Y** to **268,900**
- Annualized attrition was **22.6%**; down 100 basis points from 2Q17
- Utilization: Offshore (excluding trainees) was **83%**, +300bps **Y/Y**; On-site was **93%**, flat **Y/Y**

## $3.4 Billion Capital Return & Realignment Program

- On track to deliver 22% Non-GAAP operating margins in 2019
- On track to complete our plan, announced in February 2017, to return $3.4B to our shareholders by the end of 2018
- Share repurchase commitment will be complete with final settlement of the $600M accelerated share repurchase launched in 2Q
- 3Q18 dividend declared of $0.20 per share

[1] Balance includes restricted short-term investments of $419 million related to ongoing dispute with the Indian Income Tax Department
[2] The adoption of the new revenue recognition standard increased DSO for the quarter by 2 days



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# Key Takeaways and Guidance

## Key Takeaways

- Results demonstrate continued strength and confidence in our execution, strategy and ongoing shift to digital
  - Non-GAAP operating margin expansion reflects strong operational execution and positions us well to absorb planned investments, including wage increases and promotions, in the second half of the year
- Remain on-track to achieve full year revenue, Non-GAAP operating margin and capital return targets
- Raising full year Non-GAAP Diluted EPS guidance

| Guidance | 3Q18 |
|---|---|
| Revenue[1] | $4.06B to 4.10B |
| Non-GAAP Diluted EPS[1,2] | at least $1.13 |
| Share Count | ~581M |
| Tax Rate | ~26% |

| Guidance | Full Year 2018 |
|---|---|
| Revenue[1] | $16.05B to 16.30B |
| Non-GAAP Operating Margin[1,2] | approximately 21% |
| Non-GAAP Diluted EPS[1,2] | at least $4.50 |
| Share Count | ~585M |
| Tax Rate | ~26% |

- Share count guidance includes the full impact of the $1.2B in share repurchases during 2018
- Guidance is based on the current exchange rates at the time at which we are providing the guidance and does not forecast for potential currency fluctuations over the course of the year. Based on current exchange rates and the positive currency impact realized year to date, the full year favorable revenue impact from currency is expected to be ~60bps versus the full year 2017
- Guidance does not account for any potential impact from events such as changes to immigration and tax policies

[1] *Guidance is as of August 2, 2018*
[2] *Further information on our Non-GAAP operating margin and Non-GAAP diluted EPS guidance can be found in the Appendix of this presentation*



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# Appendix:
Reconciliation of Non-GAAP Financial Measures



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# Reconciliations of Non-GAAP Financial Measures

This earnings supplement includes references to the following measures defined by the Securities and Exchange Commission as Non-GAAP financial measures: Non-GAAP operating margin and Non-GAAP diluted earnings per share ("Non-GAAP diluted EPS"). These Non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from Non-GAAP measures used by other companies. In addition, these Non-GAAP measures should be read in conjunction with our financial statements prepared in accordance with GAAP. The reconciliations of Cognizant's Non-GAAP financial measures to the corresponding GAAP measures should be carefully evaluated.

We seek to manage the Company to a non-GAAP operating margin, which excludes stock-based compensation costs, acquisition-related charges, realignment charges, and for the three and six months ended June 30, 2018, the initial funding of Cognizant U.S. Foundation. Acquisition-related charges include, when applicable, amortization of purchased intangible assets included in the depreciation and amortization expense line on our consolidated statements of operations, external deal costs, acquisition-related retention bonuses, integration costs, changes in the fair value of contingent consideration liabilities, charges for impairment of acquired intangible assets and other acquisition-related costs. Realignment charges include severance costs, lease termination costs and advisory fees related to non-routine shareholder matters and to the development of our realignment and return of capital programs, when applicable. In addition to excluding stock-based compensation costs, acquisition-related charges, realignment charges, and the initial funding of Cognizant U.S. Foundation, our Non-GAAP diluted EPS also excludes net non-operating foreign currency exchange gains or losses, inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes, and, for the six months ended June 30, 2017, the effect of recognition of an income tax benefit previously unrecognized in our consolidated financial statements. In all periods presented, our Non-GAAP diluted EPS is additionally adjusted for the income tax impact of the above items, as applicable. The income tax impact of each item is calculated by applying the statutory rate and local tax regulations in the jurisdiction in which the item was incurred.

We believe providing investors with an operating view consistent with how we manage the Company provides enhanced transparency into the operating results of the Company. For our internal management reporting and budgeting purposes, we use various GAAP and Non-GAAP financial measures for financial and operational decision making, to evaluate period-to-period comparisons, to determine portions of the compensation for our executive officers and for making comparisons of our operating results to those of our competitors. In addition, due to a variety of award types, valuation methodologies and subjective assumptions that affect the calculation of stock-based compensation expense, we believe that the exclusion of stock-based compensation expense allows for more accurate comparisons of our operating results to those of our competitors. Therefore, it is our belief that the use of Non-GAAP financial measures excluding these costs provides a meaningful supplemental measure for investors to evaluate our financial performance. Accordingly, we believe that the presentation of Non-GAAP income from operations, Non-GAAP operating margin and Non-GAAP diluted earnings per share, when read in conjunction with our reported GAAP results, can provide useful supplemental information to our management and investors regarding financial and business trends relating to our financial condition and results of operations

A limitation of using Non-GAAP financial measures versus financial measures calculated in accordance with GAAP is that Non-GAAP measures do not reflect all of the amounts associated with our operating results as determined in accordance with GAAP and exclude costs that are recurring, namely stock-based compensation expense, certain acquisition-related charges, and net non-operating foreign currency exchange gains or losses. In addition, other companies may calculate Non-GAAP financial measures differently than us, thereby limiting the usefulness of these Non-GAAP financial measures as a comparative tool. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from Non-GAAP income from operations, Non-GAAP operating margin and Non-GAAP diluted earnings per share to allow investors to evaluate such Non-GAAP financial measures.

A full reconciliation of Non-GAAP operating margin guidance to GAAP operating margin guidance on a forward-looking basis cannot be provided without unreasonable efforts, as we are unable to provide reconciling information with respect to acquisition-related charges. A full reconciliation of Non-GAAP diluted EPS guidance to GAAP diluted EPS guidance on a forward-looking basis cannot be provided without unreasonable efforts, as we are unable to provide reconciling information with respect to acquisition-related charges, net non-operating foreign currency exchange gains or losses, and the tax effects of these adjustments, as well as the tax effects of stock-based compensation expense, all of which are adjustments to Non-GAAP diluted EPS. The reconciling information for Non-GAAP operating margin guidance to GAAP operating margin guidance and Non-GAAP diluted EPS guidance to GAAP EPS guidance that is available without unreasonable efforts is provided in the reconciliations on the following pages.

# Reconciliations of Non-GAAP Financial Measures

(dollars in millions, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Guidance | |
|---|---|---|---|---|---|---|
| | 2018[a] | 2017[a] | 2018[a] | 2017[a] | Q3 2018 | Full Year 2018 |
| GAAP income from operations | $ 670 | $ 606 | $ 1,363 | $ 1,176 | | |
| Add: Stock-based compensation expense [b] | 71 | 55 | 130 | 109 | | |
| Add: Acquisition-related charges [c] | 41 | 35 | 82 | 69 | | |
| Add: Realignment charges [d] | — | 39 | 1 | 50 | | |
| Add: Initial funding of Cognizant U.S. Foundation [e] | 100 | — | 100 | — | | |
| Non-GAAP income from operations | $ 882 | $ 735 | $ 1,676 | $ 1,404 | | |
| GAAP operating margin | 16.7% | 16.5% | 17.2% | 16.3% | | |
| Effect of stock-based compensation expense | 1.8 | 1.5 | 1.6 | 1.5 | | 1.6% - 1.8% |
| Effect of acquisition-related charges | 1.0 | 1.0 | 1.1 | 1.0 | | (c) |
| Effect of realignment charges | — | 1.0 | — | 0.7 | | 0.1% - 0.2% |
| Effect of initial funding of Cognizant U.S. Foundation | 2.5 | — | 1.3 | — | | 0.6% |
| Non-GAAP operating margin | 22.0% | 20.0% | 21.2% | 19.5% | | approximately 21.0% |
| GAAP diluted earnings per share | $ 0.78 | $ 0.80 | $ 1.66 | $ 1.71 | | |
| Effect of above operating adjustments, pre-tax | 0.36 | 0.22 | 0.53 | 0.38 | (b), (c), (d), (e) | (b), (c), (d). (e) |
| Effect of non-operating foreign currency exchange (gains) losses, pre-tax [f] | 0.14 | (0.01) | 0.19 | (0.10) | (f) | (f) |
| Tax effect of Non-GAAP adjustments to pre-tax income [g] | (0.09) | (0.08) | (0.13) | (0.14) | (b), (c), (d), (e) | (b), (c), (d), (e) |
| Effect of recognition of income tax benefit related to an uncertain tax position [h] | — | — | — | (0.09) | — | — |
| Non-GAAP diluted earnings per share | $ 1.19 | $ 0.93 | $ 2.25 | $ 1.76 | at least $1.13 | at least $4.50 |

*Please refer to page 11 and 12 of this earnings supplement for corresponding Non-GAAP notes.*

 

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# Reconciliations of Non-GAAP Financial Measures

Notes:

a) On January 1, 2018, we adopted the New Revenue Standard using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies.

b) Stock-based compensation expense reported in:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Cost of revenues | $ 16 | $ 13 | $ 31 | $ 28 |
| Selling, general and administrative expenses | 55 | 42 | 99 | 81 |

Our guidance anticipates pre-tax stock-based compensation to be in the range of $0.11 to $0.12 per diluted share for the third quarter of 2018 and $0.45 to $0.47 per diluted share for the full year 2018. We cannot provide the tax effect of stock-based compensation on a forward-looking basis without unreasonable effort as it is subject to significant fluctuations based on the timing and number of stock options exercised by employees, the price of our stock at the time of such exercises and the price of our stock at the time of vesting of other stock-based awards.

c) Acquisition-related charges include, when applicable, amortization of purchased intangible assets included in the depreciation and amortization expense line on our consolidated statements of operations, external deal costs, acquisition-related retention bonuses, integration costs, changes in the fair value of contingent consideration liabilities, charges for impairment of acquired intangible assets and other acquisition-related costs. We cannot provide acquisition-related charges on a forward-looking basis without unreasonable effort as such charges may fluctuate based on the timing, size, and complexity of future acquisitions as well as other uncertainty inherent in mergers and acquisitions.

d) Realignment charges include severance costs, lease termination costs, and advisory fees related to non-routine shareholder matters and to the development of our realignment and return of capital programs, as applicable. The total costs related to the realignment are reported in "Selling, general and administrative expenses" in our consolidated statements of operations. Commencing in Q3 2018 and during the remainder of 2018, we intend to take additional actions to further improve our cost structure primarily by optimizing our resource pyramid. As a result of these actions, we expect to incur $25 million to $35 million in severance costs, or approximately $0.04 to $0.06 per diluted share, on a pre-tax basis during the remainder of 2018. The tax impact of these charges is expected to be $0.01 per diluted share. The final amount and timing of these charges is uncertain and may change as the program continues to develop.



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# Reconciliations of Non-GAAP Financial Measures

e) In the second quarter of 2018, we provided $100 million of initial funding to Cognizant U.S. Foundation, which is focused on science, technology, engineering and math (or collectively, STEM) in the United States. This funding is not expected to recur at this magnitude in the foreseeable future and its impact on full year diluted earnings per share (pre-tax and net of tax) is not expected to change.

f) Non-operating foreign currency exchange gains (losses), inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes, are reported in "Foreign currency exchange gains (losses), net" in our consolidated statements of operations. Non-operating foreign currency exchange gains and losses are subject to high variability and low visibility and therefore cannot be provided on a forward-looking basis without unreasonable efforts.

g) Presented below are the tax impacts of each of our Non-GAAP adjustments to pre-tax income:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Non-GAAP income tax benefit (expense) related to: | | | | |
| Stock-based compensation expense | $ 19 | $ 20 | $ 38 | $ 41 |
| Acquisition-related charges | 11 | 12 | 20 | 24 |
| Realignment charges | — | 14 | — | 18 |
| Foreign currency exchange gains (losses) | (8) | — | (9) | 5 |
| Initial funding of Cognizant U.S. Foundation | 28 | — | 28 | — |

The effective tax rate related to each of our Non-GAAP adjustments varies depending on the jurisdictions in which such income and expenses are generated and the statutory rates applicable in those jurisdictions.

h) During the three months ended March 31, 2017, we recognized an income tax benefit previously unrecognized in our consolidated financial statements related to a specific uncertain tax position of $55 million. The recognition of the benefit in the first quarter of 2017 was based on management's reassessment regarding whether this unrecognized tax benefit met the more-likely-than-not threshold in light of the lapse in the statute of limitations as to a portion of such benefit.

 

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